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**Report On Controls Placed In Operation
and Tests of Operating Effectiveness
for the Treasury Bureau of the Public Debt
Federal Investments Branch
for the Period
October 1, 2001 to September 30, 2002**

OIG-03-029

December 6, 2002



Office of Inspector General

The Department of the Treasury



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

December 6, 2002

OFFICE OF
INSPECTOR GENERAL

MEMORANDUM FOR VAN ZECK, COMMISSIONER
BUREAU OF THE PUBLIC DEBT

FROM: William H. Pugh, *William H. Pugh*
Deputy Assistant Inspector General
for Financial Management and Information
Technology Audits

SUBJECT: Report on Controls Placed in Operation and Tests
of Operating Effectiveness for the Treasury Bureau
of the Public Debt Federal Investments Branch for
the Period October 1, 2001 to September 30, 2002

I am pleased to transmit the attached Report on Controls Placed in Operation and Tests of Operating Effectiveness for the Treasury Bureau of the Public Debt Federal Investments Branch for the Period October 1, 2001 to September 30, 2002. We contracted with KPMG LLP, an Independent Public Accountant (IPA), to review the Bureau of the Public Debt (BPD) transactions processing related to the investment accounts of various Federal Government agencies (Fund Agencies). These accounts were maintained by the BPD's Federal Investments Branch. The IPA performed the examination in accordance with the American Institute of Certified Public Accountants' Statement on Auditing Standards Number 70, *Reports on the Processing of Transactions by Service Organizations*, as amended, and generally accepted government auditing standards. The following IPA reports are incorporated in the attachment:

- Independent Service Auditors' Report; and
- Independent Auditors' Report on Compliance With Laws and Regulations.

The IPA concluded that the BPD's *Description of Controls Provided by the Federal Investments Branch* (included in the attachment) presents fairly, in all material respects, the relevant aspects of the BPD's controls that had been placed in operation as of September 30, 2002. The IPA also concluded that these controls

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are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and the Fund Agencies applied the controls contemplated in the design of the BPD's controls. In addition, the IPA's Report on Compliance With Laws and Regulations disclosed no instances of noncompliance.

My staff's review of the IPA's working papers determined that the work was performed in accordance with generally accepted government auditing standards. Should you have any questions, please contact me at (202) 927-5430, or a member of your staff may contact Louis C. King, Director, Financial Audits at (202) 927-5774.

Attachment



**U.S. DEPARTMENT OF THE TREASURY
BUREAU OF THE PUBLIC DEBT**

**Report on Controls Placed in Operation and
Tests of Operating Effectiveness**

**GENERAL COMPUTER AND INVESTMENT/REDEMPTION
PROCESSING CONTROLS
RELATED TO THE FEDERAL INVESTMENTS BRANCH**

For the Period October 1, 2001 to September 30, 2002

U.S. DEPARTMENT OF THE TREASURY
BUREAU OF THE PUBLIC DEBT
FEDERAL INVESTMENTS BRANCH

Report on Controls Placed in Operation and
Tests of Operating Effectiveness

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U.S. DEPARTMENT OF THE TREASURY BUREAU OF THE PUBLIC DEBT
FEDERAL INVESTMENTS BRANCH

Report on Controls Placed in Operation and
Tests of Operating Effectiveness

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I. INDEPENDENT SERVICE AUDITORS' REPORT PROVIDED BY KPMG LLP



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Telephone 412 391 9710
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Inspector General, U.S. Department of the Treasury
Commissioner, Bureau of the Public Debt and the
Assistant Commissioner, Office of Public Debt Accounting:

We have examined the accompanying description of the general computer and investment/redemption processing controls related to the Federal Investments Branch (FIB) of the Bureau of the Public Debt (BPD). Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of the BPD's controls that may be relevant to Fund Agencies' internal control as it relates to an audit of financial statements, (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and the Fund Agencies applied the controls contemplated in the design of BPD's controls, and (3) such controls had been placed in operation as of September 30, 2002. The control objectives were specified by BPD. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants, and applicable *Government Auditing Standards*, issued by the Comptroller General of the United States, and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

In our opinion, the accompanying description presents fairly, in all material respects, the relevant aspects of BPD's controls that had been placed in operation as of September 30, 2002. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and the Fund Agencies applied the controls contemplated in the design of the BPD's controls.

In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specified controls, described in Section III of this report, to obtain evidence about their effectiveness in meeting the control objectives, described in Section III, during the period from October 1, 2001, to September 30, 2002. The nature, timing, extent, and results of the tests are listed in Section III. This information is being provided to Fund Agencies and their auditors to be taken into consideration, along with information about internal controls at the Fund Agencies, when making assessments of control risk for the Fund Agencies.





Inspector General, U.S. Department of the Treasury
Commissioner, Bureau of the Public Debt and the
Assistant Commissioner, Office of Public Debt Accounting
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In our opinion the controls that were tested, as described in Section III of this report, were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives specified in Section III were achieved during the period from October 1, 2001 to September 30, 2002.

The relative effectiveness and significance of specific controls at BPD and their effect on assessments of control risk at the Fund Agencies are dependent on their interaction with the controls and other factors present at individual Fund Agencies. We have performed no procedures to evaluate the effectiveness of controls at individual Fund Agencies.

The description of controls related to the FIB of BPD is as of September 30, 2002, and information about tests of the operating effectiveness of specified controls covers the period from October 1, 2001 to September 30, 2002. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the system in existence. The potential effectiveness of specified controls is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that (1) changes made to the system or controls, (2) changes in processing requirements, or (3) changes required because of the passage of time may alter the validity of such conclusions.

The information in Section V is presented by BPD to provide additional information and is not a part of BPD's description of controls that may be relevant to the fund agencies' internal control. The information in Section V has not been subjected to the procedures applied in the examination of the description of the controls and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management of BPD, Fund Agencies and their independent auditors, U.S. Department of the Treasury Office of Inspector General, Office of Management and Budget, General Accounting Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 1, 2002

II. DESCRIPTION OF CONTROLS PROVIDED BY THE FEDERAL INVESTMENTS BRANCH

OVERVIEW OF OPERATIONS

Treasury Directive 27-02, Organization and Functions of the Fiscal Services, dated May 23, 1997, established the Bureau of the Public Debt's (BPD) responsibility to invest, approve schedules for withdrawals, and maintain accounts for the Federal Trust and Deposit Programs as directed by statute, and certify interest rates determined by the Secretary of the Treasury.

BPD has assigned these responsibilities to the Division of Federal Investments (DFI), with the exception of interest certification, which is assigned to the Debt Accounting Branch. DFI manages two functional areas: Trust Fund Management Branch (TFMB) and Federal Investments Branch (FIB). FIB is responsible for processing investment transactions for 218 Federal funds, authorized by law or the Secretary of the Treasury, that comprise the balances of the Government Account Series (GAS). FIB processes these investment transactions based on direction provided by the Federal agencies which have programmatic responsibility for the use of the fund balances (the Fund Agencies). FIB employs ten personnel and processes an average of 150 transactions daily. FIB more specifically:

- Analyzes provisions and limitations of public laws relating to investments for each account.
- Establishes and controls the record keeping of Fund Agencies' accounts by receiving and issuing investment documents: Request for Investment and Redemption of Securities Investment Confirmation Letter and Monthly Statement of Account.
- Provides daily and monthly reports to Fund Agencies reflecting account activities and balances.

Investment and redemption transaction records are maintained in both paper and electronic form. Confirmation Letters and Monthly Statement of Account are published on FIB's website for retrieval and review by Fund Agencies. FIB maintains and operates the Invest One accounting system to perform the activities stated above. The Invest One accounting system is a transaction-based accounting system for recording and processing security transactions for each of the accounts and provides information to the Public Debt Accounting and Reporting System (PARS) and the Intragovernmental Payment and Collection System (IPAC). Invest One accounting system computes daily, monthly, quarterly, semiannual, and annual interest income for each account for each security held. It also calculates investment discounts and premiums for investment and redemption transactions and Inflation Compensation Earned (ICE) on the Treasury Inflation Indexed Securities (TIIS) and maintains summary account balances for each account as well as balances by type of security.

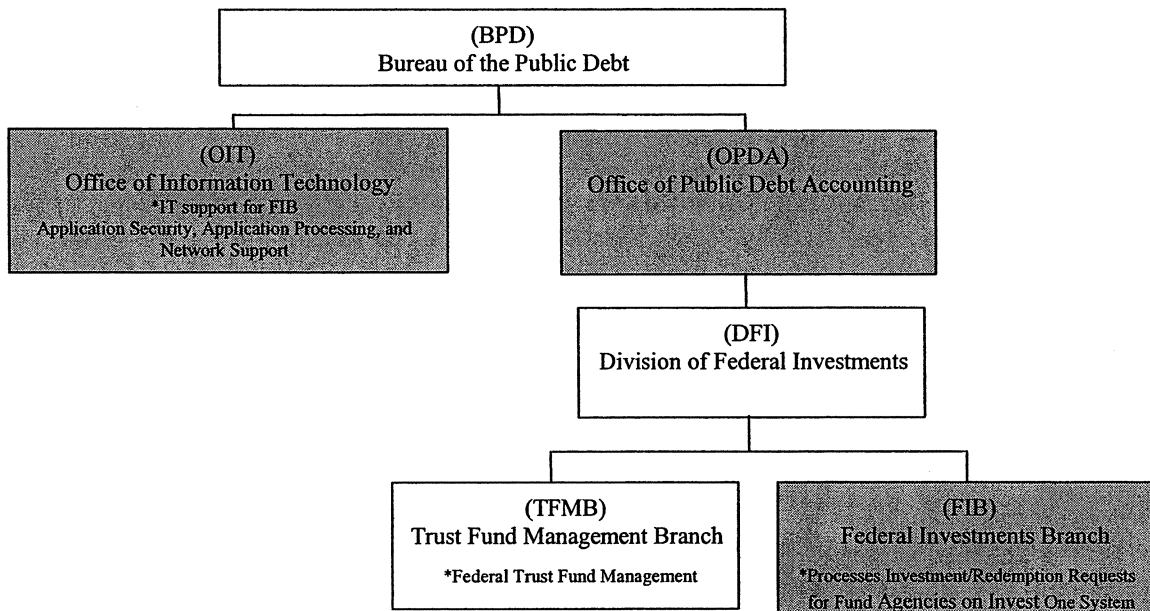
FIB processes investment transactions based on requests from Fund Agencies regarding security type, maturity, and amount. Beginning in June 2002, FIB began accepting Investment and

Redemption Requests using the FedInvest system. The Investment and Redemption Request processing for non-FedInvest users and FedInvest users is summarized as follows:

Non-FedInvest Users	FedInvest Users
<p>Investment/Redemption Requests are received at FIB by fax or phone. Phone requests require signed written documentation before Invest One processing may occur.</p> <p>To ensure that all Investment/Redemption Requests are correctly entered, two FIB accountants review and initial each request. In addition, Invest One Spectra reports are compared to the Investment/Redemption Request to ensure accuracy.</p> <p>After completing Investment/Redemption Requests, Invest One confirmations are posted to FIB's website (available for Fund Agencies) the same day. The confirmation describes the terms of the investment/redemption and the amount of the transaction.</p>	<p>To establish access to FedInvest, the Fund Agency completes an Access/Revoke form and provides this form to a supervisor for approval. The supervisor reviews and approves the Access/Revoke Form and submits the form to FIB. Using the approved Access/Revoke Form, FIB establishes a user account and communicates the account information to the Fund Agency. When an employee is terminated, the Fund Agency prepares an Access/Revoke Form and submits an approved form to FIB. FIB removes access for the requested user.</p> <p>Fund Agency employees access the FedInvest system using their User ID and password. The Fund Agency employee enters the investment purchase or redemption request into the FedInvest system. The FedInvest system interfaces with the Invest One accounting system. As such, the Invest One accounting system generates and posts on-line confirmations immediately. FIB no longer performs verification procedures to ensure that purchases and redemptions are properly entered into the Invest One accounting system and, therefore, FIB primarily relies on Fund Agencies' controls to ensure that transactions were processed accurately.</p>

FIB processes security redemption transactions on a modified first-in first-out (FIFO) basis. Special par-value securities have unique redemption results that require that they be redeemed based on the order of the earliest maturity date and lowest prevailing interest rate and FIFO. FIB obtains and applies open market prices for securities negotiated by brokers and dealers of government securities from the U.S. Department of the Treasury's Office of Market Finance (OMF) and the Federal Reserve Bank of New York.

FIB functions do not encompass monitoring or determining rates, types and maturities of government marketable securities. The Office of Information Technology (OIT) provides application security (including passwords), processing, and report programming support to FIB including regular maintenance programming and user-requested program enhancements.



A depiction of the FIB workflow process is included in Exhibit A, of this report.

Invest One System Description

The Invest One accounting system is a vendor supplied accounting package used to record and report investment fund activity processed by FIB. Invest One is licensed by SunGard Investment Systems, Inc. The Invest One accounting system resides on BPD's mainframe, which uses an OS/390 operating platform. OIT provides the primary support for maintaining the Invest One accounting system. This includes mainframe operations (batch processing and reporting), custom report writing, application change management, data management, tape backup and recovery, user access security, remote access, and continuity management. Invest One is accessed through the network using an application called Extra, a PC based software product that enables communication with OIT mainframe applications. Invest One also provides a report writer package called SPECTRA, that provides users with the ability to create their own reports. FIB uses SPECTRA to create reports, which provide functionality not included in the standard Invest One reports.

FIB also receives supporting documentation/reports on a daily basis from “In-House” developed programs created by DFI programmers. These programs are created by members of the Federal Investment System Team (FIST) on their individual PCs located in the Hintgen Building and then migrated to a server in the OIT data center. These programs read the data from the Invest One accounting system and create various reports to assist in FIB’s daily processing. Specifically, data is downloaded from the Invest One accounting system to a data file located on the servers where the programs execute. Data is not sent from these programs to the Invest One accounting system.

RELEVANT ASPECTS OF THE CONTROL ENVIRONMENT

Control Environment

Operations are primarily under the direction of the Office of the Director of the Division of Federal Investments. FIB employs a staff of ten people, which represent the functional areas listed below. See Exhibit B for the Organization Chart.

- *Administrative development.* Coordinates various aspects of FIB operations. Identifies areas requiring internal controls and implements those controls. Performs systems planning, development, and implementation. Reviews network operations and telecommunications and performs disaster-recovery planning and database administration.
- *Fund support.* Supports end users in all aspects of their use of the application system including research and resolution of identified problems.
- *Operations.* Manages daily computer operations, production processing, report production and distribution, and system utilization and capacity.

The DFI holds weekly management meetings to discuss special processing requests, operational performance, and the development and maintenance of projects in process. Written position descriptions for employees are maintained. The descriptions are inspected annually and revised as necessary.

References are sought and background, credit, and security checks are conducted for all BPD personnel when they are hired. Additional background, credit, and security checks are performed every three to five years. The confidentiality of user-organization information is stressed during the new employee orientation program and is emphasized in the personnel manual issued to each employee. BPD provides a mandatory orientation program to all full time employees and encourages employees to attend other formal outside training.

All BPD employees receive an annual written performance evaluation and salary review. These reviews are based on goals and objectives that are established and reviewed during meetings between the employee and the employee's supervisor. Completed appraisals are reviewed by senior management and become a permanent part of the employee's personnel file.

Risk Assessment

BPD has placed into operation a risk assessment process to identify and manage risks that could affect FIB's ability to provide reliable transaction processing for users. This process requires management to identify significant risks in their areas of responsibility and to implement appropriate measures to manage these risks.

Communication

BPD has implemented various methods of communication to ensure that all employees understand their individual roles and responsibilities over transaction processing and controls. These methods include orientation and training programs for newly hired employees, and use of electronic mail messages to communicate time sensitive messages and information. Managers also hold periodic staff meetings as appropriate. Every employee has a written position description that includes the responsibility to communicate significant issues and exceptions to an appropriate higher level within the organization in a timely manner.

Monitoring

BPD management and supervisory personnel monitor the quality of internal control performance as a normal part of their activities. To assist them in this monitoring, the organization has implemented a series of "key indicator" management reports that measure the results of various processes involved in providing transaction-processing services to Fund Agencies. Key indicator reporting consists of PARS posting summary reports to validate accuracy. All exceptions to normal or scheduled processing through hardware and software, or procedural problems are also logged, reported and resolved daily. These reports are inspected daily and weekly by appropriate levels of management, and action is taken as necessary.

FUND AGENCIES' CONTROL CONSIDERATIONS

BPD's general computer and investment/redemption processing controls related to FIB were designed with the expectation that certain internal controls would be implemented by the Fund Agencies. The application of such controls by the Fund Agencies is necessary to achieve all control objectives identified in this report, since FIB is a servicing organization that processes transactions that directly affect the Fund Agencies. There may be additional objectives and related controls that would be appropriate for the processing of trust fund transactions that are not identified in this report.

This section describes certain controls that Fund Agencies should consider for achievement of control objectives identified in this report. The Fund Agencies' control considerations presented below should not be regarded as a comprehensive list of all controls that should be employed by Fund Agencies. Fund Agencies should perform the following controls:

- Have a tracking and notification process to ensure that all requests are processed by FIB.
- Ensure that access to the FedInvest system is restricted to properly authorized individuals.
- Provide to FIB applicable legislation, and any subsequent revision to this legislation, that authorizes the Fund Agency to invest.
- Verify the authority to invest prior to submitting Investment/Redemption Requests.
- Ensure that only authorized personnel sign request submissions.
- Ensure that the requested investment returns the appropriate amount of interest to meet their investment income goals.
- Reconcile their records of interest payments received as presented in the confirmation letters and Monthly Statements of Account and recalculate interest for accuracy.
- Approve reinvestments of interest only after review for accuracy, completeness, and compliance with their instructions.
- Not rely on FIB for advice on appropriateness of investment/redemption decisions.
- Notify FIB as soon as possible if Investment/Redemption Requests have been processed incorrectly so that correcting transactions may be processed.
- Notify FIB whether they accept or reject zero coupon bond rates.
- Review investment/redemption confirmations to verify that each Investment/Redemption Request was processed accurately and timely.

- Review adjustments and make prompt and appropriate journal entries to their accounting records, to adjust the investment and interest account balances.
- Ensure that the preparation of Investment/Redemption Request forms is accurate and complete prior to submission for processing by FIB.
- Ensure that Investment/Redemption Requests are accurately entered into the FedInvest system.
- Submit accurate transaction requests to FIB and reconcile confirmations to their Fund Agency records.
- Review their FIB provided Monthly Statement of Account to ensure that transactions are recorded accurately and should report discrepancies to FIB so correction processes may occur.
- Review and reconcile all transaction confirmations to determine that they are accurate and discrepancies should be reported to FIB so correcting transactions may be processed.

Specific user control considerations are provided for Control Objectives 7, 9, 10, 11, 12, 13, 15 and 16 in the Control Objectives, Related Controls and Tests of Operating Effectiveness section of this report.

III. INFORMATION PROVIDED BY KPMG LLP

OBJECTIVES OF THE REVIEW

This report on controls placed in operation and tests of operating effectiveness is intended to provide interested parties with information sufficient to obtain an understanding of those aspects of BPD's controls that may be relevant to Fund Agencies' controls and reduce the assessed level of control risk below the maximum for certain financial statement assertions. This report, when coupled with an understanding of the controls in place at the Fund Agencies, is intended to assist in the assessment of the controls surrounding transaction processing.

Our examination was restricted to selected services provided to the Fund Agencies for the operations of FIB and OIT and, accordingly, did not extend to procedures in effect at Fund Agencies. The examination was conducted in accordance with the Statement on Auditing Standards (SAS) No. 70, *Service Organizations*, SAS No. 78, *Consideration of Internal Control in a Financial Statement Audit: An Amendment to SAS No. 55*, SAS No. 88, *Service Organizations and Reporting on Consistency*, and SAS No. 94, *The Effect of Information Technology on the Auditor's Consideration of Internal Control in a Financial Statement Audit*, each issued by the American Institute of Certified Public Accountants. It is each interested party's responsibility to evaluate this information in relation to controls in place at the Fund Agencies in order to obtain an understanding of the controls and assess control risk. The Fund Agencies and FIB portions of the controls must be evaluated together. If effective controls are not in place at the Fund Agencies, FIB's controls may not compensate for such weaknesses.

Our examination included inquiry of appropriate management, supervisory and staff personnel, inspection of documents and records, observation of activities and operations, and tests of general computer and investment/redemption processing controls surrounding FIB and OIT operations. Our examination did not extend to procedures and controls of BPD branches outside of FIB, OIT, and FIST or to IRS, OTA, FMS, Office of Market Finance, Federal Reserve Bank (FRB) of New York, or the Fund Agencies. In addition, our examination did not include ASAP, CASHLINK, Intragovernmental Payment and Collection System, or Government On-line Accounting Link System (GOALS). Our tests of controls covered the period October 1, 2001, to September 30, 2002, and were applied to those controls relating to control objectives specified by BPD.

The description of controls and control objectives are the responsibility of BPD's management. Our responsibility is to express an opinion as to whether the controls are operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives, as specified by BPD's management, were achieved during the period covered by our report. Test procedures performed in conjunction with determining the operating effectiveness of controls and control objectives within this report are described on the next page.

<u>Test Procedure</u>	<u>Description</u>
Inspected	Analyzed documents and reports that contained an indication of performance of the control. This includes, among other things, reading of external and internal documents to assess whether balances and reconciling items are properly supported, monitored, controlled and resolved on a timely basis.
Inquired	Interviewed appropriate FIB and OIT personnel about the relevant controls.
Observed	Viewed the application of specific controls by FIB and/or OIT personnel.
Verified	Confirmed and substantiated by inspecting documents, electronic files and/or reports.
Compared	Examined the character and qualities of forms, files, documentation, FIB and OIT processes and procedures to discover the resemblance or differences in their values.

CONTROL OBJECTIVES, RELATED CONTROLS AND TESTS OF OPERATING EFFECTIVENESS

GENERAL COMPUTER CONTROLS

System Software

Control Objective 1

Controls should provide reasonable assurance that implementation and changes to system software are authorized, tested, approved, properly implemented and documented.

Description of Controls

The Invest One accounting system operates within a mainframe environment which consists of the following system software products:

- OS390 Operating System
- Customer Information Control System (CICS)
- ACF2 Security
- Endeavor Change Control
- Tape Management System (TMS)
- Control M and D (Production and Print scheduling)
- ETF/A (Emergency Change Control)
- Applix

Additionally, all PCs are configured with:

- Windows 2000 (sp 1)
- Ethernet card and
- Extra (version 6.5) emulation software required to run mainframe applications such as Invest One.
- Source Safe software for posting secure fax confirmations on Treasury's website

These products are under vendor contract for maintenance and support. Upgrades to these products occurred during the year ended September 30, 2002. Each upgrade is managed by the OIT technical group.

For system software changes on the mainframe, BPD uses the Applix product for change management. All system software changes (i.e. new product installations, maintenance upgrades, etc.) require a change record to be opened in Applix. A record can be opened by any system programmer in OIT's Technical Services (System Programming) or the change control coordinator. The record includes a description of the change, implementation date of the change, a justification, a back-up/back-out plan, and a status for changes that take several weeks/months to implement.

Changes are initially discussed at the “Weekly Change Control Meeting” held every Tuesday morning at 9:30 a.m. Attendees include representatives from all divisions within OIT as well as all users impacted by the proposed change. Depending on the type of change, notification is sent to the assistant commissioner, division directors, branch managers and/or staff personnel.

Following the meeting, the change control coordinator prepares and distributes the “Weekly Change Control Memorandum” on Thursday afternoon with information on changes for the upcoming week. This memorandum describes the system changes, effective dates, reasons for changes or problems the changes will resolve. There is also a reference to the Applix change control number. Each Monday, FIST receives and reviews an Applix report of all upcoming changes.

Before changes can be moved to production, they are tested in accordance with BPD’s system software change control procedures. These procedures use two separate operating system environments (Test and Production). The Production environment has three regions: Test, Acceptance, and Production. Each region is a logical environment with its own software, datasets, and libraries. After testing has been performed by programming in the Test environment, it is migrated to the Production Test environment where it is again tested by the programmer. Then it is migrated to the Production Acceptance environment where it is tested using example transactions and “Acceptance” environment files and libraries. After Acceptance testing is complete, the changes are migrated to production.

For emergency changes, BPD has established a process that allows system programmers to have temporary access to production through the use of a “fire-call” ID product called ETF/A. The operating system is configured to monitor and log such activity for review and approval by management the following day.

Tests of Operating Effectiveness and Results of Testing

- Observed Information Systems Security Representative display Microsoft Windows 2000 and Extra version numbers on each of the PCs and determined that all PCs were running the same versions.
- Inquired of FIST personnel and determined that OIT coordinates and manages the following:
 - Current version of Windows operating system.
 - Current version of Extra emulation software.
- Inspected BPD’s system software change control procedures and inspected a selection of system software changes and determined the following:
 - Changes were properly communicated, prioritized, and scheduled.
 - Changes were reviewed, approved, and scheduled for implementation into production through the weekly change control meeting.
 - Changes were tested, implemented, and documented.
- Inquired of OIT personnel and determined that the emergency change procedures were complete and current.

- Inspected policies and techniques for use and monitoring of system utilities and determined that they were working as designed.
- Inquired of the FIST team and determined that they receive and review the Applix reports for changes planned that may impact the Invest One mainframe environment.
- Inquired of OIT personnel and determined that all system software is under contract with the vendor for maintenance and support.

Based on the tests of operating effectiveness and results of testing described above, the controls were operating with sufficient effectiveness to achieve this control objective.

Vendor Software

Control Objective 2

Controls should provide reasonable assurance that implemented new releases of vendor supplied applications are authorized, tested, approved, properly implemented and documented.

Description of Controls

The Invest One accounting system is licensed by SunGard Investment Systems Inc. Twice each year the vendor provides a new release of the software that will require comprehensive testing. The software releases will follow standard OIT change control procedures as described in the description of controls in Control Objective number 3. In addition, BPD uses the Endeavor change management software product, to manage the upgrades. The application change control process is under the control and direction of FIST. SunGard Investment System, Inc. provides documentation for each release. The Invest One accounting system was upgraded in June 2002.

Tests of Operating Effectiveness and Results of Testing

- Inquired of BPD personnel and determined that the Invest One accounting system is under contract with SunGard Investment Systems Inc. for maintenance and support.
- Inspected vendor documentation and maintenance and support contract and determined that it was complete and current.
- Inquired of FIST and determined they coordinate and manage the new releases of the Invest One accounting system.
- Inspected the Invest One new release procedures and results and determined the new releases were authorized, tested, approved, implemented, and documented.
- Inspected the BPD software change procedures and determined that only authorized personnel can initiate requests.

- Inspected the BPD software change control procedures and determined that they are complete and current.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

Program Change Control

Control Objective 3

Controls should provide reasonable assurance that changes to customized reports are authorized, tested, approved, properly implemented and documented.

Description of Controls

FIB has developed customized reports for the Invest One accounting system. Although the Invest One accounting system is supported primarily by OIT, the FIST team also provides support for the design and testing of custom reports, which are developed (written) by OIT. These custom reports have been created to provide information unavailable in the standard Invest One reporting package. FIST creates the requirements documentation, which is then provided to OIT for development. FIST manages the request, testing, and approval process, described below, using the Endeavor software change management product.

Invest One application reports, developed by SunGard Investment Systems, Inc., are tested via BPD's System Software Change Control procedures. These procedures use two separate operating system environments (Test and Production). Furthermore, the Production environment has three regions: Test, Acceptance, and Production. Each region is a logical environment with its own software, datasets, and libraries. After testing has been performed by programming in the Test environment, it is migrated to the Production Test environment where it is again tested by the programmer. Then it is migrated to the Production Acceptance environment where it is tested using example transactions and the "Acceptance" environment files and libraries. After Acceptance testing is complete, the Invest One application reports are migrated to Production.

For emergency changes to the customized reports developed by OIT or the Invest One application reports, BPD has established a process that allows system programmers or the contractors from SunGard Investment Systems Inc. to have temporary access to production through the use of a "fire-call" ID product called ETF/A. The operating system is configured to monitor and log such activity for review and approval by management the following day.

FIB also receives customized reports on a daily basis from "In-House" developed programs created by DFI programmers. These programs are created by members of the FIST team on their individual PCs located in the Hintgen Building and then migrated to a server in the OIT data center. These programs read the data from the Invest One accounting system and create various reports to assist in FIB's daily processing. Specifically, data is downloaded from Invest One to a

data file located on the servers where the programs execute. Data is not sent from these programs to Invest One.

Tests of Operating Effectiveness and Results of Testing

- Inspected user request procedures for report changes and determined that only authorized personnel can initiate requests.
- Inspected the acceptance-testing procedures and determined they were complete and current.
- Inspected Endeavor release procedures and determined they were complete and current.
- Inquired of OIT personnel and determined that emergency change procedures were complete and current.
- Inspected a selection of report changes and determined the following:
 - Changes were properly communicated, prioritized, and scheduled.
 - Changes were reviewed, approved, and scheduled for implementation into production.
 - Changes were tested, implemented, and documented.
- Inquired of FIST NT Security Administrators and determined that server controls to run the “In-House” developed programs are restricted to authorized FIB personnel.
- Inquired of FIST NT Security Administrators and determined that server controls to access and makes changes to the “In-House” developed programs are restricted to authorized FIST personnel.
- Inquired of FIST NT Security Administrators and determined that server controls to the data directories on the server are restricted to authorized personnel only.

Based on the tests of operating effectiveness and results of testing described above, the controls were operating with sufficient effectiveness to achieve this control objective.

Access

Control Objective 4

Controls should provide reasonable assurance that physical access to computer equipment and storage media is restricted to properly authorized individuals.

Description of Controls

The BPD H.J. Hintgen building is manned by an armed security guard (contracted GCR - Government Control Resources employees) daily from 5:45 am to 8:00 pm. In addition, another security guard is stationed with the armed security guard generally from 7:00 am to 6:00 pm daily. The north entrance to the BPD building at 200 Third Street (the main building) is manned

by an armed security guard (contracted GCR - Government Control Resources employees) twenty-four hours a day. In addition, the south entrance to the main building is manned by an armed security guard (contracted GCR - Government Control Resources employees) daily from 5:30 am to 8:00 pm. All perimeter doors are monitored by a video camera system that records twenty-four hour increments of activity. Tapes are changed each morning when the guard arrives at the Hintgen building. For the Third Street location, tapes are changed daily for external cameras and every two days for internal cameras. All tapes are logged with the date and time and stored in a locked box for thirty days before being put back into rotation. The video recording machines are serviced and cleaned every six months to ensure recording quality.

Employees can only be granted After/Off hours access to the Hintgen building after a request is made by the Assistant Commissioner from the Office of Public Debt Accounting (OPDA) to the head of BPD security. Keys and alarm codes are issued from the main security office, located at the main building, and recorded on a Record of Keys Issued sheet. Entrants must contact the main security office after disarming the system using a hot-line phone connection at the guard desk. Main security must be notified when leaving and arming the system as well. This follows normal opening and closing procedures.

People entering each building are required to place any materials, packages, bundles, etc. into an EG&G Astrophysics Line Scan 210 for x-ray purposes. Entrants are also required to pass through a Sentries AT Walkthrough Metal Detector.

Identification badges are issued to employees. Employees are required to swipe their badges on a Hersh Electronics Card Reader System (HECRS) that grants access to authorized personnel. The HECRS is connected to security headquarters located in the main building. Headquarters issues employee badges after security background checks and fingerprinting are complete. Employees are required to have badges available at all times upon request and must bring them to the main entrance if they are escorting a visitor into the building. Employees receive complete security training as new hires directly from security management personnel during initial orientation processes. Copies of access control procedures are available on the BPD's web site and are posted in each building on the bulletin boards. If an employee forgets his/her identification badge, access to the building is refused. A temporary employee identification badge can be issued after verification is obtained from the security database, the employee signs-in on the Employee Log. Temporary employee identification badges must be returned to the security guard station upon departure on the day of issue. An inventory of temporary employee identification badges is completed at the beginning and end of each guard shift. Terminated employees are required to surrender identification badges and are removed from the database security system immediately.

Visitors are required to sign-in on the Visitor Log, pass through both the x-ray and metal detection devices, are issued a visitor badge, and must be escorted by an authorized employee or contractor. Access is limited to those areas of the building in which the employee or contractor is working. Visitors are required to exit the Hintgen building before the guard leaves at 8:00 pm. An inventory of visitor badges is completed at the beginning and end of each guard shift. Visitors must return the badge when leaving the building for the day. Visitors and contractors who will be working at the site for extended periods are issued a visitor badge with an expiration

date after being fingerprinted and receiving security clearance. Visitors are then added to the security database for the designated time period, after which access is terminated. Visitor badges must be returned upon termination of the engagement.

An employee needing access to the data center in the main building must have his/her Branch Manager request access. The forms are contained within an automated system called APPLIX to which only branch managers have access. The branch manager completes the APPLIX request form which then pulls information from the contact management database and sends the message to the Network Services Branch. The Network Service Branch then reviews and approves, rejects or returns the request. Approved requests are forwarded to the Security Branch for review and approval. If approved, the Security Branch then creates a card-key with access to the authorized data center areas.

Access to the main computer areas and all sensitive areas require the use of the card-key. Card-keys must be used for ingress and egress from each sensitive area. Card-key access limits employees to only those areas within the data center for which they are authorized. This also provides an audit trail that is reviewed by management for access violations and appropriate follow-up.

All employees without a card-key who require entry to the data center are required to sign the Flextime Log recording the time-in, time-out, employee initials, and remarks/approval. This log is maintained at the main entrance to the data center. This is used by management to provide a record of employees visiting the data center. A visitor log, "Computer Room Visitation Register" is also maintained at the main entrance to the data center. This log contains the visitor's name, section, date, time-in, time-out and visitor badge number.

No outside materials are delivered to the sites without being inventoried and inspected at the BPD warehousing facility. Authorized BPD employees deliver all materials, mail, and packages.

Tests of Operating Effectiveness and Results of Testing

- Observed guard arrival and departure times and determined coverage was in accordance with stated schedule.
- Observed guard station monitor and determined cameras were operating effectively.
- Inspected videotape storage and determined tapes are maintained for the 30-day period specified.
- Inspected a selection of Off-Hour Records of Keys Issued reports and determined procedures were followed.
- Observed EG&G x-ray, Sentries Metal Detector, and HECRS Card Swipe machines and determined they were working as designed.

- Inspected a selection of identification badges and determined they matched those noted on visitor and employee logs.
- Compared Terminated/Retired employee list against security database and determined inactive employees were removed from the system in a timely manner.
- Inspected access procedural bulletin board postings and determined procedures are posted.
- Inspected doors protected by cypher locks and determined they were working properly.
- Inspected access policies and procedures for the data center and determined they were current and complete, specifically.
 - Physical and logical controls are designed to detect unauthorized access.
 - Access to sensitive/critical areas have been identified and appropriately restricted.
 - Logs are reviewed and violations are investigated.
 - Deposits and removal of tapes and storage media are authorized and logged.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

Control Objective 5

Controls should provide reasonable assurance that logical access to system and application software is restricted to properly authorized individuals.

Description of Controls

BPD has established guidelines for the preparation of security plans for applications and systems that process Sensitive but Unclassified (SBU) information. All major support systems and general support systems are subject to an internal risk-based review every three years. This review identifies assets and possible threats to these assets, provides a measure of vulnerability of the system to these threats, and confirms control or protective measures are in place. The Invest One accounting systems is classified as a major support system.

Access to the Invest One accounting system is controlled by the Invest One software along with mainframe ACF2 security. Access is controlled by user IDs and passwords. FIB follows OPDA system administration security password guidelines/procedures to establish and maintain passwords. These guidelines require passwords to be at least 8 characters in length, changed every 90 days, and unique for each individual. Passwords are not displayed when entered. ACF2 is also used to appropriately restrict OIT personnel's access to system software, database files, and program libraries.

Access to the Invest One accounting system is managed by FIST. Users must complete and submit an Access Request/Revoke Form to FIST before access is granted. Both FIB management and FIST must authorize the form. FIST has documented granting procedures in

the Production Operating Processes (POP) manual. This manual is used to manage Invest One processes.

FIST members provide remote support access to the Invest One accounting system by utilizing a modem and a Secure ID token. The Security Branch logs each dial-in attempt. Once a successful dial-in connection is established, users are authenticated to the mainframe Invest One package by their designated ACF2 user ID and password.

Fund Agencies that invest in Government Account Series (GAS) securities are able to input transactions as well as view account statements and transaction information over the Internet using screens labeled FedInvest to access the Invest One accounting system. Fund Agency users are required to have their supervisor's approval along with FIST approval before access is granted to FedInvest. Fund Agencies accessing the Invest One accounting system using the FedInvest system are also authenticated by ACF2. All FedInvest users are assigned specific ACF2 logon IDs for tracking and control purposes. The FedInvest access screen limits access specific to ACF2 IDs. All failed login attempts are logged, reviewed, and filed by FIST weekly.

Tests of Operating Effectiveness and Results of Testing

~~1. Observed the performance of system functions and determined that programmer access was~~

- Observed users menu options for the Invest One accounting system and determined that users did not have access to administrative functions.
- Inspected a selection of user access request forms for the Invest One accounting system and determined that appropriate personnel had approved the access.
- Inspected a selection of user access request forms for the FedInvest system and determined that appropriate personnel had approved the access.
- Inspected procedures and policies associated with mainframe access and determined that:
 - They are documented and current.
 - Access authorizations are appropriately limited.
 - Authorized users are appropriately maintained.
 - Inappropriate or unusual activity is investigated and reported.
 - Passwords, tokens or other devices are used to authenticate users.
 - Logical controls over data files and programs are appropriately designed.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

Computer Operations

Control Objective 6

Controls should provide reasonable assurance that FIB computer processes are scheduled appropriately and deviations are identified and resolved.

Description of Controls

The Invest One accounting system is an interactive Mainframe system with master data files that are updated when entries are posted. End-of-day processes perform maintenance to the data tables and data backups. Data entry error checking and input screen designs ensure that the data entered by users is accurate and complete. The error checks include verification of entered data based upon predetermined values and ranges. Errors detected by the system are rejected immediately and must be repaired before the transaction is permitted to update the master data tables.

Daily user operations for the Invest One accounting system are posted to provide operators with the information necessary to sequentially complete daily processing. A copy of the FIB Operating Procedures and a detailed Work Flowchart Diagram is available for reference. The monthly calendar, created in Lotus Notes, is posted at the workstation and highlights daily requirements. System operations require that daily reporting be performed in sequence before transaction processing can begin.

The operations of the Invest One accounting system are controlled through mainframe operating production software called Control M. This allows all programs for batch processing, printing,

and data backup to be scheduled and performed automatically. Messages are sent by Control M to OIT and FIST confirming each day's successful completion of scheduled jobs.

Tests of Operating Effectiveness and Results of Testing

- Observed the entry of transactions into the Invest One accounting system and determined that error-checking features were functioning as designed.
- Inspected the current FIB Operating Procedures and detailed Work Flowchart and determined they are complete and current.
- Inspected a selection of Control M messages and determined that jobs were completed as scheduled and reports were produced as expected.
- Observed the entry of transactions into the Invest One accounting system and determined that deviations were resolved.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

Control Objective 7

Controls should provide reasonable assurance that data communications between the Invest One accounting system and Fund Agencies are complete and accurate.

Description of Controls

The Invest One accounting system produces investment confirmations for each investment purchase and redemption entered into the Invest One accounting system.

During June 2002, FIB began accepting Investment and Redemption Requests from Fund Agencies using the FedInvest system. The confirmation generation process for FedInvest users and non-FedInvest users is summarized as follows:

Prior to FedInvest	FedInvest
<p>The Invest One accounting system produces confirmation letters for the day's transactions. To create these confirmations, FIB accountants select and run the "confirmation" option from the Invest One FIB reports menu. The Invest One accounting system will generate a text file that includes a confirmation for each transaction processed. FIB accountants use "Source Safe" to convert the text files into PDF files and post the confirmations on the BPD website. "Source Safe" protects the posted documents so that they contain read-only access and cannot be modified once posted. If the Fund Agencies identify any errors on the confirmations, the Fund Agencies informs the FIB accountants and the necessary adjustments can be made.</p>	<p>Fund Agencies access the FedInvest system using their User ID and password. Since the FedInvest system interfaces with the Invest One accounting system, the Invest One generated confirmations are immediately posted on-line through the FedInvest interface.</p>

Fund Agencies' Control Considerations

- Fund Agencies should have a tracking and notification process to ensure that all requests are processed by FIB.
- Fund Agencies should ensure that access to the FedInvest system is restricted to properly authorized individuals.

Tests of Operating Effectiveness and Results of Testing

- Inspected a selection of Investment/Redemption Request forms and determined data transmissions were complete and accurate.
- Inspected a selection of Investment/Redemption Request forms and determined they were received from authorized Fund Agencies.
- Inspected a selection of daily activity reports and determined outgoing fax confirmations were sent to Fund Agencies or posted to the FIB website for their retrieval.

- Inspected a selection of Investment/Redemption Requests input into the FedInvest system and determined data transmissions between the FedInvest system and the Invest One accounting system were complete and accurate.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

Control Objective 8

Controls should provide reasonable assurance that network performance monitoring techniques are implemented appropriately.

Description of Controls

To access the Invest One accounting system a user must be connected to the BPD Intranet. PCs are configured using Windows 2000 and contain an Ethernet card. Additionally they must run the Extra software which provides terminal emulation to the mainframe CICS environments. The network is a 100 MB Ethernet microwave link and a backup T-1 and is monitored using various software components. These tools monitor percentage of bandwidth utilization, percentage of broadcast traffic, etc. in real-time.

Tests of Operating Effectiveness and Results of Testing

- Inquired of OIT computer specialist and determined that network performance monitoring tools were utilized.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

INVESTMENT/REDEMPTION PROCESSING CONTROLS

Item Processing Security

Control Objective 9

Controls should provide reasonable assurance that an authorized investment authority is established prior to processing investment requests.

Description of Controls

FIB only creates new investment accounts in the Invest One accounting system after receiving approval from the Treasury. FIB is typically informed about the establishment of an agency fund through the agency itself or from a legislative review done by BPD Legal. FIB refers any proposed investment funds to Public Debt and Treasury's Chief Counsel's office for legal review. Once the legal review is completed, the proposed investment account is passed through

the Office of Fiscal Assistant Secretary (OFAS) for final approval. Once OFAS approves the investment account, FIB contacts the responsible Fund Agency to coordinate account setup.

BPD Chief Counsel's office maintains the Legal Matter Management System to track legal matters of investment funds. This system has become the Treasury standard for initiating, maintaining and commenting on all legal matters with regards to new and existing investment funds.

Fund Agencies' Control Considerations

- Fund Agencies should provide to FIB applicable legislation, and any subsequent revision to this legislation, that authorizes the Fund Agency to invest.
- Fund Agencies should verify the authority to invest prior to submitting Investment/Redemption Requests.
- Fund Agencies should ensure that only authorized personnel sign request submissions.

Tests of Operating Effectiveness and Results of Testing

- Inspected daily transaction processing procedures and file documentation and determined information was properly maintained and available, and that proper FIB personnel review was performed and that verification signatures were present.
- Inspected a selection of files containing documentation for Fund Agency investment authorizations and determined that information was properly maintained and available.
- Inspected a selection of documentation for Fund Agency investment authorizations and determined that the investment account was properly authorized.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

Interest Calculations and Payments

Control Objective 10

Controls should provide reasonable assurance that interest is calculated accurately and interest reinvestments are completed accurately.

Description of Controls

The methods for calculating interest for GAS securities are documented in written desktop procedures and programmed into the Invest One accounting system. The Invest One accounting system calculates the amount of interest to be paid when investments are redeemed or interest payments are due. The calculations are designed to conform to 31 CFR Chapter II, Part 306,

Subpart E and Part 344, Subparts A-D with the exception of one-day securities. The results of the calculations are reported on the confirmations and are available to the Fund Agency for reconciliation and recomputation. The Invest One accounting system also calculates premiums and discounts on certain securities that are market-based, in addition to a variety of accrued interest amounts as well as Inflation Compensation Earned (ICE) on the Treasury Inflation Indexed Securities (TIIS). The calculations for ICE are designed to conform to 31 CFR Chapter II, Part 356, Appendix B

FIB accountants verify the accuracy of original input and processing by manually recomputing interest on a selection of redemptions performed in accordance with methods published in the desktop procedures. Also, Fund Agencies notify FIB accountants when and if their reconciliation and recomputations of the data on the confirmation letters detect any errors.

The Invest One accounting system produces Monthly Statements of Account which show interest income earned on each security. FIB inspects these reports for reasonableness. The statements are made available to the Fund Agencies for reconciliation with their accounting records.

To support the investment rollover process, FIB prepares an investment rollover report that includes principal balances from the Invest One accounting system and interest accruals that are calculated by the FIB accountant. The FIB lead accountant reviews and approves the investment rollover report and sends the report to Treasury headquarters. The investment rollover report is approved by the Fiscal Assistant Secretary of the Treasury and returned to FIB for processing.

Fund Agencies' Control Considerations

- Fund Agencies should ensure that the requested investment returns the appropriate amount of interest to meet their investment income goals.
- Fund Agencies should reconcile their records of interest payments received as presented in the confirmation letters and Monthly Statements of Account and recalculate interest for accuracy.
- Fund Agencies should only approve reinvestments of interest after review for accuracy, completeness, and compliance with their instructions.
- Fund Agencies should not rely on FIB for advice on appropriateness of investment/redemption decisions.

Tests of Operating Effectiveness and Results of Testing

- Inspected desktop procedures for methods of computing interest and determined the methods were compliant with 31 CFR, Chapter II, Part 306, Subpart E and Part 344, Subparts A-D for those securities other than one-day securities.
- Inspected desktop procedures for methods of computing ICE and determined the methods were compliant with 31 CFR, Chapter II, Part 356, Appendix B.

- Recalculated a selection of interest for one-day securities and determined that they complied with the desktop procedures.
- Recalculated a selection of interest, premium and discount amounts, and ICE and determined that they were mathematically accurate and properly recorded.
- Observed FIB accountants manually recomputing redemptions for a selection of transactions and determined that the steps were performed in accordance with the desktop procedures.
- Observed a selection of the processing of a fund rollover and determined that reinvestment occurred.
- Inspected a selection of the Monthly Statement of Account report and determined that the interest income was reported accurately and completely.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

Item Capture

Control Objective 11

Controls should provide reasonable assurance that Investment/Redemption Requests are processed completely and accurately.

Description of Controls

FIB accountants enter the Account Fund Symbol (AFS), security number, type of transaction, and amount of transaction into the Invest One accounting system. The Invest One accounting system assigns a unique number to each transaction. Daily security price files are provided by the Office of Market Finance (OMF) for market-based transactions. The FRB of New York emails the daily rate for one-day certificates. These prices/rates form the basis for that day's investment pricing. FIB adds the price file to the Invest One accounting system and updates the one-day certificate rate in Invest One accounting system when this information becomes available.

Zero Coupon Bond pricing is also provided by OMF on an as needed basis. Once current pricing is obtained from OMF for zero coupon bonds, FIB accountants communicate this information to Fund Agencies. Fund Agencies must advise FIB whether they will accept the stated price and place an order. There are only three Fund Agencies investing in zero coupon bonds as of September 30, 2002. Overnight and one-day investments require Fund Agency authorization for reinvestment. FIB accountants process these overnight transactions as required.

FIB processes investment transactions based on written instructions from Fund Agencies regarding security type, maturity, and amount. During June 2002, FIB began accepting

Investment and Redemption Requests using FedInvest system. The Investment and Redemption Request processing for non-FedInvest users and FedInvest users is summarized as follows:

Non-FedInvest Users	FedInvest Users
<p>Investment/Redemption Requests are received at FIB by fax or phone. Phone requests require signed written documentation before Invest One processing may occur.</p> <p>For each transaction, FIB accountants manually apply the prices and rates.</p> <p>To ensure that all Investment/Redemption Requests are correctly entered, two FIB accountants review and initial each request. In addition, Invest One Spectra reports are compared to the Investment/Redemption Request to ensure accuracy.</p> <p>After completing Investment/Redemption Requests, Invest One confirmations are posted to FIB's website (available for Fund Agencies) the same day. The confirmation describes the terms of the investment/redemption and the amount of the transaction.</p>	<p>To establish access to FedInvest, the Fund Agency completes an Access/Revoke form and provides this form to a supervisor for approval. The supervisor reviews and approves the Access/Revoke Form and submits the form to FIB. Using the approved Access/Revoke Form, FIB establishes a user account and communicates account information to the Fund Agency. When an employee is terminated, the Fund Agency prepares an Access/Revoke Form and submits an approved form to FIB. FIB removes access for the requested user.</p> <p>Fund Agencies access the FedInvest system using their User ID and password. Fund Agencies enter investment or redemption requests into the FedInvest system. Since the FedInvest system interfaces with the Invest One accounting system, the Invest One accounting system automatically applies the prices and rates to each transaction, and generates and posts on-line confirmations immediately.</p>

Since the FedInvest system interfaces with the Invest One accounting system, confirmations are generated by the FedInvest system instantly. As such, faxing the Investment/Redemption Request to FIB became unnecessary for FedInvest users. Additionally, FIB no longer performs verification procedures to ensure that purchases and redemptions are properly entered into the Invest One accounting system for those purchasing via FedInvest and, therefore, FIB primarily relies on Fund Agencies' controls to ensure that transactions are processed accurately.

Fund Agencies' Control Considerations

- Fund Agencies should notify FIB as soon as possible if the Investment/Redemption Requests have been processed incorrectly so that correcting transactions may be processed.
- Fund Agencies must notify FIB whether they accept or reject zero coupon bond rates.
- Fund Agencies should review investment/redemption confirmations to verify that each Investment/Redemption Request was processed accurately and timely.
- *Fund Agencies should ensure that access to the FedInvest system is restricted to properly authorized individuals.*

Tests of Operating Effectiveness and Results of Testing

- Observed FIB accountants assigning CUSIP numbers and entering transaction information and determined that the processing was complete and that CUSIP numbers were not duplicated.
- Inspected a selection of Investment/Redemption Request forms and determined that processing was accurate and complete and that required faxed Investment/Redemption Request forms had been received.
- Inspected procedures for obtaining files containing written instructions from Fund Agencies and determined they were accurate, complete, and being followed by FIB personnel.
- Inspected a selection of Investment/Redemption Requests via FedInvest and determined data transmissions were complete and accurate.
- Inspected a selection of Investment/Redemption Requests input into the FedInvest system and determined data transmissions between the FedInvest system and the Invest One accounting system were complete and accurate.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

Fund Balance Adjustment

Control Objective 12

Controls should provide reasonable assurance that Fund Agency account balance adjustments, due to errors in processing or Fund Agency errors, are processed completely and accurately.

Description of Controls

Fund Agency managers detect errors by reviewing FIB confirmations. They notify FIB of the errors and send adjustment information.

Adjusting transactions are processed the same way new entries are processed as described under Control Objective 15. They are initiated by an FIB accountant and reviewed by two more FIB accountants before final approval. The correction results in a confirmation being posted to FIB's website.

The steps performed to make the correction are documented in the fund transaction file with all other transaction records.

At the end of the month, the Statement of Account is available for Fund Agency review and shows the investment corrections. The Statement also shows investment account balances.

Fund Agencies' Control Considerations

- Fund Agencies should review investment/redemption confirmations to verify that each Investment/Redemption Request was processed accurately and timely.
- Fund Agencies should review adjustments and make prompt and appropriate journal entries to their accounting records, to adjust the investment and interest account balances.

Tests of Operating Effectiveness and Results of Testing

- Observed the processing of an investment interest account error correction and determined it was performed in accordance with management's established procedures.
- Inspected a selection of FIB retention files and determined that transaction documentation was maintained as required.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

Recordkeeping

Control Objective 13

Controls should provide reasonable assurance that Investment/Redemption Request forms are complete, accurate, and prepared in a timely manner.

Description of Controls

To ensure that the non-FedInvest user's Investment/Redemption Requests are suitable for entry into the system, three FIB accountants review and sign each request. Investment/Redemption Requests may be faxed from the Fund Agency manager or authorized agent and must include: name of fund, account symbol, date of request, amount available or needed, type of security to invest/redeem, and authorized signature of the Fund Agency manager or authorized agent.

Beginning in June 2002, FIB began accepting Investment and Redemption Requests using the FedInvest system. Since the FedInvest system interfaces with the Invest One accounting system, FIB no longer enters Investment/Redemption Request data into the Invest One accounting system for FedInvest users. FIB primarily relies on Fund Agencies' controls to ensure that transactions are processed accurately.

Fund Agencies' Control Considerations

- Fund Agencies should ensure that the preparation of Investment/Redemption Request forms is accurate and complete prior to submission for processing by FIB.
- Fund Agencies should ensure that access to the FedInvest system is restricted to properly authorized individuals.
- Fund Agencies should ensure that Investment/Redemption Requests are accurately entered into the FedInvest system.

Tests of Operating Effectiveness and Results of Testing

- Inspected a selection of Investment/Redemption Request and Confirmations and determined they were complete, accurate, verified by FIB personnel and prepared in a timely manner.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

Control Objective 14

Controls should provide reasonable assurance that support related to the investment accounts is documented and readily available.

Description of Controls

Copies of the Investment/Redemption Request forms are filed by Fund Agency in chronological order for non-FedInvest users. Files are kept on-site at FIB until FY 2003. After this period, the files are transported to archive storage. In addition, the Invest One accounting system generates an electronic confirmation for each transaction (both FedInvest as well as paper-based) and a Monthly Statement of Account. Copies of these files are maintained electronically by FIB.

On a daily basis, FIB receives a market price file from OMF and daily rate sheet for one-day certificates from FRB of New York. These quotations document the daily prices/rates and are filed for future reference. Files are kept on-site at FIB until audited before being transported to archive storage.

Daily Total Reports are generated, filed, and remain on-site at FIB until FY2003. They are then transferred off-site to archive storage.

Copies of the Notification of P&I Credit, used to report interest on certain investments held at FRB of New York and the related deposit slip are filed for future reference. Each month, FIB develops the SF1132, SF1133-1 and SF1134-1 monthly reports. These reports show each Fund Agency's account balance. They are sent to Treasury to be used in decision making and determining financing of securities.

Tests of Operating Effectiveness and Results of Testing

- Inspected a selection of Daily Total Reports and Investment/Redemption Requests and determined supporting documentation was complete and accurate.
- Inspected a selection of files containing SF1132, SF1133-1 and SF1134-1 forms and deposit slips and determined that they were complete and accurate.
- Inspected a selection of Fund Agency files, Daily Total Reports, Market Price files from OMF, and Daily Rate Sheet from FRB and determined supporting documentation was available as required.
- Inspected a selection of electronic confirmations and determined that they were complete and accurate.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

Control Objective 15

Controls should provide reasonable assurance that the duties of authorizing, processing information, and verifying documents are appropriately segregated.

Description of Controls

FIB processes transactions through the Invest One accounting system. The Invest One accounting system electronically produces confirmations that are published on FIB's website for Fund Agency use.

To verify that transactions have been processed accurately for the non-FedInvest users, FIB personnel not entering transactions on a given day will review and compare a copy of the Investment/Redemption Request from non-FedInvest users to an Invest One accounting system generated report. Both the data entry personnel and the verifying personnel initial the file copies to document that the procedure has been performed.

FedInvest users are required to have their supervisor's approval along with FIST approval before access is granted to the FedInvest system. Their access to the Invest One accounting system is authenticated by ACF2. All FedInvest users are assigned specific ACF2 logon IDs for tracking and control purposes. The FedInvest access screen limits access specific to ACF2 IDs. All failed login attempts are logged, reviewed, and filed by FIST weekly.

Fund Agencies' Control Considerations

- Fund Agencies should submit accurate transaction requests to FIB and reconcile confirmations to their Fund Agency records.

- Fund Agencies should ensure that access to the FedInvest system is restricted to properly authorized individuals.
- Fund Agencies should ensure that investment/investment requests are accurately entered into the FedInvest system.

Tests of Operating Effectiveness and Results of Testing

- Inspected a selection of Investment/Redemption Request forms and determined FIB's authorization, processing, and verification process was followed and that approvals had occurred.
- Inspected a selection of Investment/Redemption Confirmation letters and Daily Total Reports and determined that FIB personnel validated the confirmation for accuracy.
- Inspected a selection of user access request forms for the FedInvest system and determined that appropriate personnel had approved the access.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

Statement Rendering

Control Objective 16

Controls should provide reasonable assurance that confirmation letters and monthly reports are processed in a timely and accurate manner.

Description of Controls

Confirmations

A single confirmation letter is created for each transaction entered into the Invest One accounting system. Invest One assigns an individual number that is linked to each transaction. This number is the primary control used by FIB to ensure a proper inventory is maintained of Investment/Redemption Requests that are received. A one for one relationship exists between requests and numbers. A running tab is manually kept throughout the day that shows the range of numbers from the beginning to the end of the day. This is used to ensure all confirmation letters are published in a timely manner. The confirmation letters are posted daily on Treasury's website for review by Agency Fund Managers. Also, for the FedInvest on-line confirmations, see Control Objective 7 description of controls. The Fund Agencies should review the confirmations and inform the FIB accountants of any errors so that necessary adjustments can be made.

Monthly Statements of Account

The Invest One accounting system produces a Monthly Statement of Account that details a fund's beginning balance, investment/redemption activity, unrealized discount, premium/discount recognized, interest earning, and ending balance. This report is a useful tool for Fund Agency managers to use for transaction reconciliation, investment monitoring, and investment strategy initiatives. To create the report, the FIB accountant selects and runs the "account statement" option from the FIB reports menu. The Invest One accounting system will generate a text file that includes the Monthly Statement of Account for each fund. The FIB account manager uses "Source Safe" to convert the text files into PDF files and posts the Monthly Statements of Account on the FIB's website for easy reference. "Source Safe" protects the posted documents so that they are read-only access and cannot be modified once posted. In addition, previous months statements are available for reference purposes. If the Fund Agency identifies any errors, the Fund Agency informs the FIB accountant and the necessary adjustments can be made.

Fund Agencies' Control Considerations

- Fund Agencies should review their FIB provided Monthly Statement of Account to ensure that transactions are recorded accurately and should report discrepancies to FIB so correction processes may occur.
- Fund Agencies should review and reconcile all transaction confirmations to determine that they are accurate and discrepancies should be reported to FIB so correcting transactions may be processed.

Tests of Operating Effectiveness and Results of Testing

- Inspected a selection of Investment/Redemption Requests and determined that confirmation letters are processed timely and accurately.
- Observed FIB personnel preparing, processing, and transmitting confirmation letters and determined that processing is accurate and timely.
- Inquired of personnel regarding key reporting dates and determined the Monthly Statement of Account and confirmation letters are posted to Treasury's website..
- Inspected a selection of Monthly Statement of Account reports and determined that the activity reported was accurate and complete.

Based on the tests of operating effectiveness and results of testing described above, the controls are operating with sufficient effectiveness to achieve this control objective.

**IV. OTHER INFORMATION PROVIDED
BY KPMG LLP**



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Inspector General, U.S. Department of the Treasury
Commissioner, Bureau of the Public Debt and the
Assistant Commissioner, Office of Public Debt Accounting:

We have examined the accompanying description of the general computer and investment/redemption processing controls related to the Federal Investments Branch (FIB), of the Bureau of the Public Debt (BPD) and have issued our report thereon dated November 1, 2002. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants, and applicable *Government Auditing Standards*, issued by the Comptroller General of the United States.

Our examination included procedures to obtain reasonable assurance about whether (1) the FIB's description of controls included in Section II presents fairly, in all material respects, the aspects of BPD's controls that may be relevant to Fund Agencies' internal control as it relates to an audit of financial statements, (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and the Fund Agencies applied the controls contemplated in the design of BPD's controls, and (3) such controls had been placed in operation as of September 30, 2002. The control objectives were specified by BPD. Our examination included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

Compliance with laws and regulations applicable to FIB is the responsibility of BPD management. As part of obtaining reasonable assurance about whether control structure policies and procedures tested were operating with sufficient effectiveness to achieve the related control objectives during the period from October 1, 2001, to September 30, 2002, we performed tests of BPD's compliance with certain provisions of applicable laws and regulations directly and materially affecting the investment account functions. We limited our tests of compliance to these provisions and we did not test compliance with all applicable laws and regulations. The objective of our examination was not, however, to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* and are described below:

This report is intended solely for the information and use by the management of BPD, Fund Agencies and their independent auditors, the U.S. Department of the Treasury Office of Inspector General, Office of Management and Budget, General Accounting Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 1, 2002



**V. OTHER INFORMATION PROVIDED BY
THE FEDERAL INVESTMENTS BRANCH**

Contingency Planning

System Back Up

The Invest One accounting system has a contingency plan managed by FIST. There is a formal DFI Business Contingency Plan (DFI BCP), which was last tested on April 24, 2002. All daily Invest One functions were completed at the contingency site with the support of FIB employees. The focus of the tests was to complete daily processing requirements of the Invest One accounting system. The test was considered successful by management.

OIT uses the Tape Management System (TMS) from IBM to perform backups. OIT performs two backups of the Invest One accounting system each night, the first before running the nightly batch jobs and the second after completion. OIT retains the first backup tape for two weeks and retains the second back up tape for two months. OIT stores the tapes in the production tape library until they are rotated offsite. Short-term storage of Invest One tapes is maintained at the Park Center site facility in Parkersburg, approximately five miles from the Hintgen Building. Long-term storage of tapes is at the Boyers Mine Facility in Pennsylvania.

If a backup tape needs to be restored, the request will be made from the FIST management level or above. OIT will then load the backup tape.

Continuity of Operations

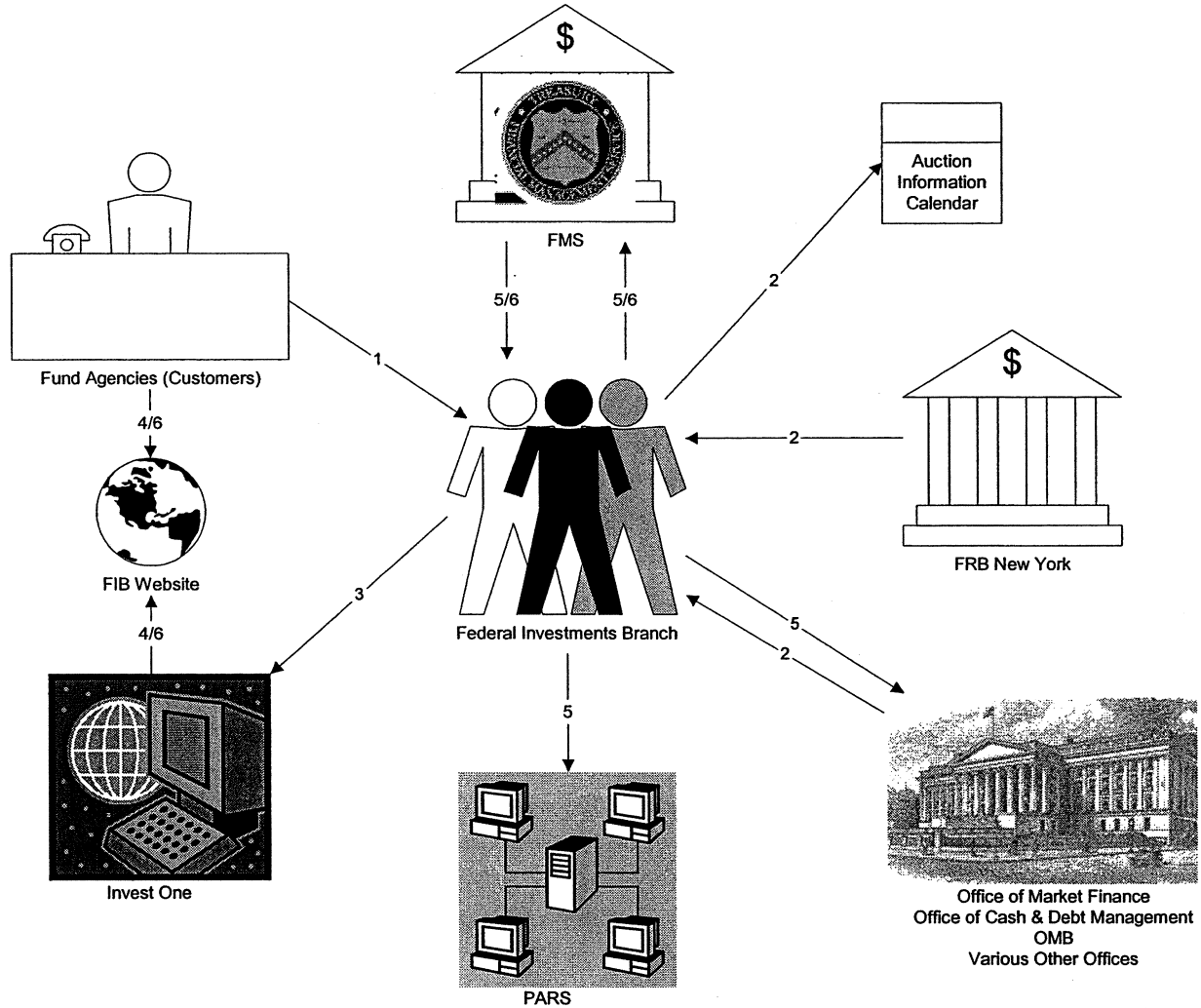
A fire alarm and sprinkler system that is managed, maintained, and tested by the facilities management department at BPD protects the Hintgen Building and the main building. Alarms are active 24 hours a day, 7 days a week, and are tied-in to the local fire department over phone lines for spontaneous notification. Sprinkler heads are located in the ceiling of each room of the buildings. This is a "wet pipe" (always charged with water) system with individual heads that discharge water.

In the event the main building, where the Invest One accounting system is run, becomes inoperable, mainframe operations would be relocated to the Park Center facility in accordance with the OIT data center recovery plan. This facility employs a "warm site" strategy for recovery of mainframe operations. OIT has contracted with El Camino Disaster Recovery Services to provide mainframe equipment for this site. The DFI BCP calls for recovery of the mainframe operations and critical applications within 13 to 30 days. The Invest One accounting system has been classified as a critical application.

As part of the DFI BCP, should the Hintgen Building become unavailable, personnel will relocate to the "Warehouse" on 19th street to reestablish their daily operations. BPD will revert to manual procedures until the mainframe and Invest One accounting system are fully recovered at the Park Center facility.

EXHIBIT A

FIB PROCESSING WORKFLOW



1. Investment/Redemption requests received from Agencies via fax/phone.
2. Receive overnight rate from FRBNY via e-mail.
Verify existence of securities from AIC and load in Invest One.
Retrieve security pricing from Treasury.
3. Input investment/redemption into Invest One for processing.

4. Confirmations posted on FIB website for Agencies.
5. Daily reports from FIB to PARS, FMS, Treasury.
6. Monthly reports to Agencies and FMS from Invest One and FIB.

ORGANIZATIONAL CHART

